

UNCLAS HARARE 002323

SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND CWILKENSON
USAID FOR MAJORIE COPSON

E.O. 12958: N/A
TAGS: [EFIN](#) [ECON](#) [ETRD](#) [ZI](#)
SUBJECT: Nearly 1,000 Zimdollar = 1 \$US

¶11. Summary: Zimbabwe's currency has been falling. At almost Z\$ 1,000/1 \$US in parallel markets, the weak Zimdollar is exacerbating the GoZ's forex crunch. End Summary.

Buying Frenzy in Harare's Streets

¶12. The Zimdollar has been shedding a weekly 8-10 percent lately, a far more pronounced decline than earlier this year. While the official rate of 55:1 has hardly budged, the Zimdollar has lost most of its value in the last half-year. The Embassy cashier's rates, which reflect parallel Zimdollar out-of-country amounts, tell the story:

Monthly Averages:

Oct/2001	302/\$US
Jan/2002	316/\$US
April/2002	330/\$US
July/2002	685/\$US

Weekly Rates:

Oct 3, 2002	780/\$US
Oct 10, 2002	860/\$US
Oct 17, 2002	950/\$US

In the more desperate climate of Harare's streets, a US dollar is now fetching around Z\$ 1,200.

¶13. We attribute the U.S. dollar's 215 percent appreciation since October 2001 to the following:

- Monetary Policy. Money supply has grown by 102 percent since October 2001, accounting for half the appreciation in proportional terms (i.e., 2 Zimdollars/2002 supplanting 1 Zimdollar/2001).

- Expectations. Zimbabwe's economy is projected to shrink 5-10 percent in 2003 with no prospect of recovery. The GoZ is not expected to curb spending, tighten monetary policy, devalue the official rate or eliminate price controls when it unveils its 2003 budget proposal next month.

- Safe Haven. Bank accounts as well as short-term government bonds pay only 25-40 percent interest, versus a conservative inflation rate of 140 percent. U.S. dollars are an appealing defensive investment for small savers, who are bidding up the price of the greenback. The mood is so somber that psychological factors may be causing modest short-term overshooting.

Comment

¶14. As the de facto market-determined regime, the parallel rate is trying to find equilibrium. The official rate is permanently in disequilibrium, since the GoZ does not support it with foreign reserves or other means. 55:1 is a theoretical (read: wishful) rather than fixed rate in any conventional sense.

¶15. The parallel Zimdollar's swift descent spells further trouble for the GoZ, which desperately needs forex to buy food, fuel and pharmaceuticals. It makes imports inaccessible for most Zimbabweans, causing reverberations throughout the economy (e.g., 300 of 400 taxis with one major company are presently grounded because car-owners cannot afford imported replacement parts). And it drives down the U.S. dollar-denominated price of the country's assets, diminishing the GoZ's yield when it barterers or sells shares in state holdings.

Sullivan